DEVELOPMENT PROPOSAL FOR A TRANSIT ORIENTED (TOD) SITE IN RESTON, VIRGINIA

by
Brice Leconte

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Development Proposal

Wiehle Commons
Tower 1

Brice Leconte
M.S. Real Estate
Johns Hopkins University
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I. EXECUTIVE SUMMARY

Wiehle Commons ("WC") is a proposed redeveloped of 1831 and 1861 Wiehle Avenue in Reston, Virginia ("Property") by the Pomeray Group. The Property is located at the Wiehle Avenue exit of the Dulles Toll Road, across the street from the future Reston Wiehle Metro Station in Fairfax County. The Property is located approximately 18 miles west of Washington, D.C.

WC will be developed into three twelve stories high rise apartment towers with ground floor retail. Each tower will have approximately 21,000 square feet of retail with 203 residential units ranging from efficiencies to two bedroom units. Depending on the county's final decision, most of the parking is expected to be underground with some of the parking being blended into the building structure. The project will be developed in sections, with Tower 1 being the first.

The Property is zoned Industrial ("I-4") and is a total of 8.4 acres with two existing 80,000 square foot office buildings built in the early 80's. The Property will need to be rezoned to PDC District with an expected FAR of 2.5. A moderate proffer package is expected and may include a percentage of the units being committed to Workforce Housing in exchange for a density greater than 2.5. As the final proffer package is not yet determined, Pomeray is presenting this project assuming a 2.5 FAR.

The Pomeray Group ("PG") has been working with the two property owners for some time and has reached a preliminary agreement to buy the Property in three closings. The first closing is preliminarily agreed to be at a price of $11,000,000 and will encompass the land needed to develop Tower 1. The property owners have also agreed to defer settlement until such time as the approvals are in place.

A construction loan that converts into a permanent loan is proposed through FNMA. The three year construction loan is proposed with a floor of 5% amortized over 30 years into a permanent 10 year loan at a 6.19% interest rate amortized over 30 years. The equity requirement is expected to be 25% of the loan. (Deal, 2010)

The Pomeray Group is looking for an investor to put up 90% of the equity requirement in return for an 8% preferred return and 70% of the remaining cash flow. Brice Leconte through the Pomeray Group will be investing 10% of the equity requirement in return for 30% of the cash flow after pref.

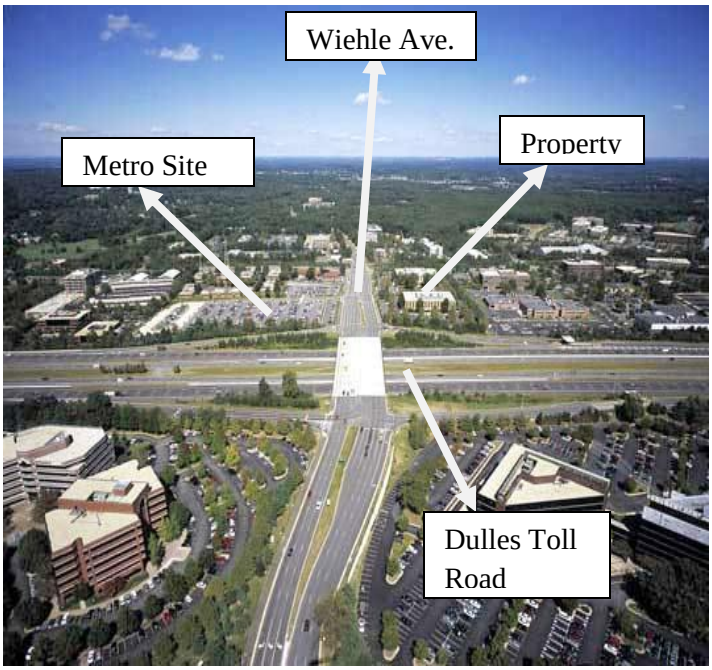
The projected settlement date for the land in section 1 and the construction commencement is be July 1, 2012. Tower 1 is expected to be ready for occupancy on January 1, 2014 with a stabilization of the residential units by the end of 2014 and the stabilization of the retail by mid-2015.

II. SITE OVERVIEW

2.1 Location

The property is located in Reston, Virginia approximately 20 miles west of Washington, DC and 8 miles west from the Washington, DC Beltway. Reston is located in the northwest quadrant of Fairfax County.

The property is easily accessible as it sits on the northeast corner of the Wiehle Avenue exit along the Dulles Toll Road Route 267. The future Silver line Wiehle Metro stop will be located immediately across the street from the property, approximately 300 yards away.



The property is bordered to the north by Sunset Hills Road which connects the property to the Reston Town Center (located two miles west of the subject property). The W&OD pedestrian/bike trail runs on the north side of Sunset Hills Road. North of the W&OD quickly gets into residential areas which is mixed townhomes, apartments and single family. To the south of the Toll Road is more low story office buildings along with residential which begins south of Sunrise Valley Road.

2.1.1 Reston Area

The property is located within the Reston Association which is one of the largest community associations in the United States. Reston began as the vision of Robert E. Simon who purchased the 6,750 acre land from Dr. Wiehle in 1961. He gave it the name Reston from his initials RES followed by Ton, short for town. Mr. Simon had the vision to create a place where people could live, work, and play. In 1962 he was able to get Fairfax County to agree to give the area a new

zoning classification, Residential Planned Community (RFC). From there, work began to create the community with the original town center located on Lake Anne being the central focal point. Since that time Reston has grown into one of the most vibrant communities in Fairfax County, and is renowned around the country as being one of the earliest success stories for Smart Growth.

2.2 General Site Information

The property is currently divided into two separate parcels with two different property owners. Each parcel is improved with a classic 4 story early 1980's classic suburban office building. The parcels info is listing below:

1831 Wiehle Avenue (northern parcel):

-4.28 acres

-Tax Map # 0174 18 0001B

-Current Zoning I-4 (Industrial Medium Density)

-Current Owner JBG Companies

-Current Improvements: There is currently a 75,191 SQF three story office building that was built in 1982. The main tenant is NOVA's Reston Campus, occupying 60% of the building.

1861 Wiehle Avenue (southern parcel):

-4.06 acres

-Tax Map # 0174 18 0001A

-Current Zoning I-4 (Industrial Medium Density)

-Current Owner Royco Inc.

-Current Improvements: There is currently an 81,037 SQF three story office building that was built in 1985. The main tenant in the building is Marymount University Reston Campus which houses their nursing department and occupies 70% of the building.

When combined, both properties make up a total of 8.34 acres and currently have a total of 550 surface parking spots.


1831 Wiehle Avenue
1861 Wiehle Avenue


M&T Bank
1861 Wiehle Avenue

2.3 Site Selection Analysis

The Pomeray Group is focused on developing mixed use developments throughout Northern Virginia. PG chose this property specifically for its mixed use redevelopment potential. PG also has a good understanding of the political environment in Fairfax County, and viewed this property as having a good political timing for approvals. One of the toughest obstacles on a redevelopment project like this is securing the entitlements. With all the recent press regarding TOD developments, PG knows Fairfax County is motivated to take advantage of the Silver Line extension. They are willing to work with developers to make sure the density around future metro stops is properly maximized, which will then expand their tax base. Without Metro, a high density project of this nature would have a tougher time receiving approvals.

Another important deciding factor in selecting this project was the property owner's willingness to permit staged take downs of the property in sections and giving the time necessary to secure zoning approval before closing on each parcel. In return, PG has agreed to pay them a higher per square footage price for the land and let them be involved in the planning of the property. This will lower PG's risk exposure while going through the entitlement process, and will also reduce the project costs by lowering the carrying costs. The property owner will also

benefit from PG paying for having the property entitled, and in the event PG would default, they would have an approved property across from Metro. These are the types of deal structures that PG is interested in pursuing. It has been PG's experience that a development's probability of success increases when all parties involved have some skin in the game.

III. MARKET AND FEASIBILITY ANALYSIS

3.1 Methodology

The purpose of the market and feasibility analysis was to evaluate several potential uses for the site including: office, hotel, residential, and retail. Retail would be considered as a secondary use to the others, simply because since this will be a vertical project, retail is not a viable use to fill a 12 story building. When first looking at each use, PG focused on the current and proposed supply knowing that it would determine the decision of which uses to incorporate. When PG began to look at the potential for office and hotel uses PG quickly saw an oversupply. This led PG to focus on residential and retail.

For the potential for office, the Pomeray Group looked at CoStar's mid-year office report which shows the Dulles Corridor class A office vacancy rate at 18% with 7,079,226 square feet of vacant space. Only 146,054 square feet has been absorbed year to date in the Dulles Corridor. (The CoStar Office Report, Mid-Year 2010, Washington, DC Office Market, 2010) It is the corridor with the most vacancy in the Washington, DC office market. Also the interview with Comstock did confirm that they are planning 830,000 square feet of new office space throughout their development. (Bergner, 2010) (County of Fairfax, 2010) The large amount of office space proposed by Comstock, and the staggering amount of vacant space, led the Pomeray Group to decide not to incorporate office space in this development.

For the potential for hotel, PG also looked at the Comstock project, where the interview did confirm that they are planning a 126,000 square foot hotel. (Bergner, 2010) (County of Fairfax, 2010) PG also interviewed JBG who is involved in a potential hotel development at the Reston Parkway exit. Mr. Smith who is the hotel asset manager for JBG confirmed that the current and

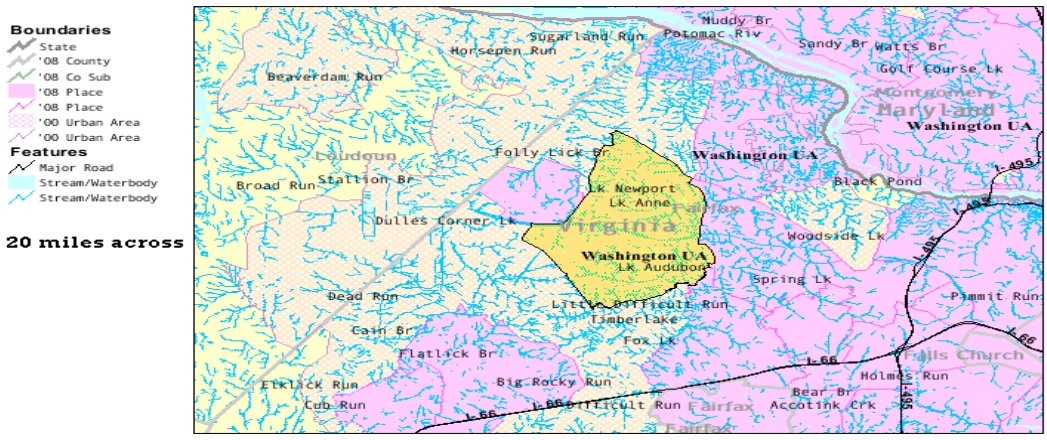
planned supply of hotel rooms along the Dulles Tool Road exceeds demand and will continue do so for the forcible future. (Smith, 2010) This apparent oversupply led the Pomeray Group to decide not to incorporate a hotel in this development.

To get a full picture of the market for the potential market for residential and retail, PG ordered two market and feasibility studies from two different reputable companies. PG chose Grindall, Moore & Warren, LLC ("GM&W") to conduct the residential analysis. GM&W has been active in the local market place for 20 years, and have an industry reputation for focusing on residential uses. For the retail analysis, PG chose Blue Jays Associates, LLC ("BJA"). BJA has over ten years experience focusing on retail uses in Northern Virginia. It is also important to disclose that the author of this Development Proposal was on the BJA team that produced the retail analysis. Excerpts will be used (in italics), from those studies throughout this section, but the complete studies are attached as Exhibit A and B.

3.2 Demographics

Fairfax County has a population of over 1,000,000 people making it the largest county in Virginia. As well as supporting a large population base, it has one of the strongest employment sectors in the country. As of 2nd quarter 2009, the total workforce was 593,216 with 572,708 of those individuals being employed, giving Fairfax County a 4.6% unemployment rate, compared to an unemployment rate of over 8% for the nation during the same time period. Employment in the area is highly concentrated in the technology industry, which may indicate a younger professional population who could make up a large portion of the potential market for the subject project. Major employers in the area include Computer Science Corporation, SAIC, and Lockheed Martin. Including these private employers, the government, both state and local, make up over 20% of the jobs in the County. In addition, many of the private employers are under contractors. The insulation provided by the Federal Government is a major reason for the strength of job market in Fairfax. Fairfax County has been the host of rapid employment growth. Over the past 20 years, employment in the County has increased by nearly 50% from 371,000 in 1990 to 568,000 in 2009. During this time (1990-2010), housing units have also seen an increase from 302,000 to 398,000. 2010 demographic statistics show that households in Fairfax County are to reach 381,686 while housing units will be at 398,686. (Fairfax County Website, 2010)

Reston, Virginia CDP (US Census Bureau, 2010)



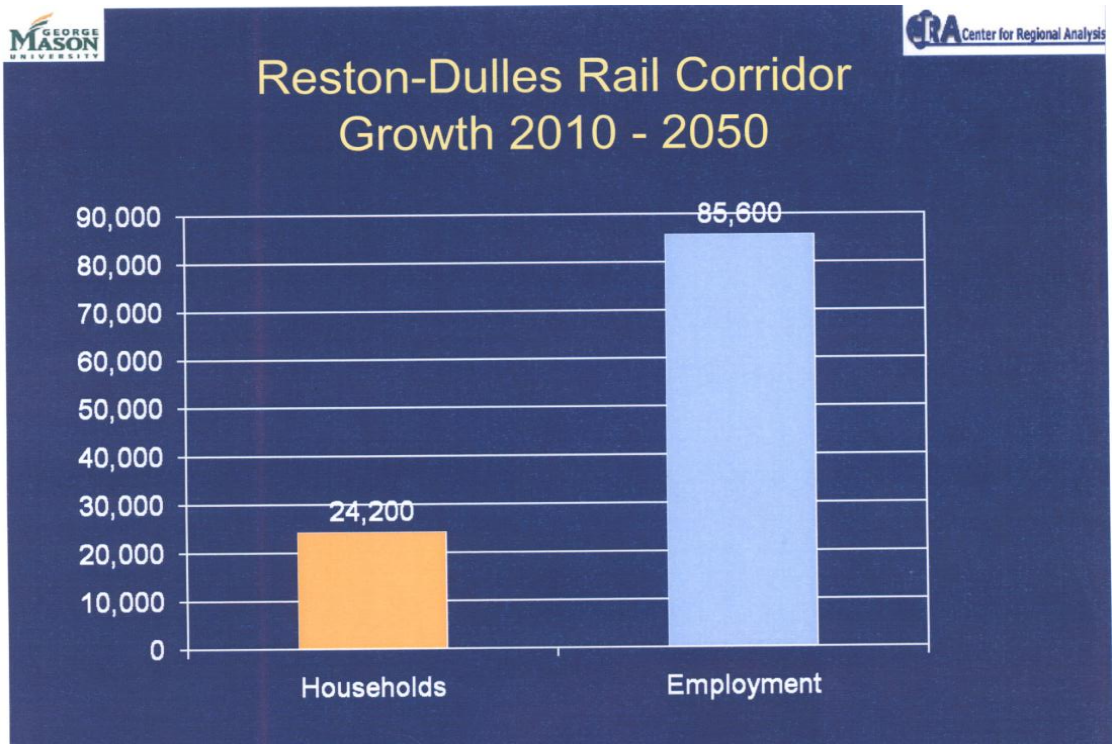
Reston, VA CDP as defined by the US Census

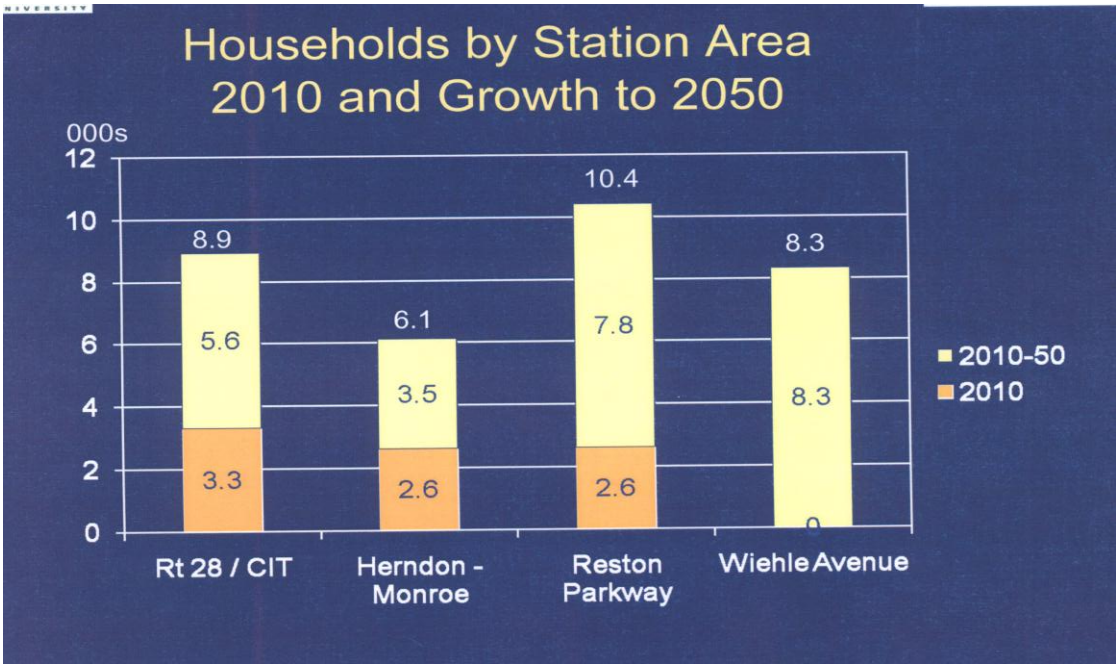
Population and Growth

The population of the Reston CDP is estimated to be 196,910 in 2010 and is projected to grow .96% annually through 2015 and 1.21% annually through 2020. Reston experienced significant growth from 2000 to 2010 at an annual rate of 2.15%.

A study performed by George Mason University's Center for Regional Analysis shows a projected increase of 85,600 jobs over the next forty years for the Reston-Dulles Rail Corridor with 8,300 of those jobs being around the Wiehle Avenue Station.[1] They foresee job growth for 2010-2020 to be faster in the Tysons Corner and South County due to BRAC, but as Metro takes shape in Reston, the job growth will be similar in all regions. (Sturtevant & McClain, 2010)

[1] (Sturtevant & McClain, 2010)





(Sturtevant & McClain, 2010)

Household Income and Industries

As of 2008, the median household income was $102,839, which ranks in the top three nationally. 21% of Fairfax County residents had a pre-tax income between $100,000 and $149,000. (US Census Bureau, 2010)

INCOME AND BENEFITS (IN 2008 INFLATION-ADJUSTED DOLLARS)			
Total households	***24,096***	***24,096***	
Less than $10,000	*921*	*3.8%*	
$10,000 to $14,999	*323*	*1.3%*	
$15,000 to $24,999	*853*	*3.5%*	
$25,000 to $34,999	*1,096*	*4.5%*	
$35,000 to $49,999	*2,104*	*8.7%*	
$50,000 to $74,999	*3,033*	*12.6%*	
$75,000 to $99,999	*3,277*	*13.6%*	
$100,000 to $149,999	*5,251*	*21.8%*	
$150,000 to $199,999	*2,901*	*12.0%*	
$200,000 or more	*4,337*	*18.0%*	
Median household income (dollars)	*102,839*		
Mean household income (dollars)	*132,939*		

Total number of households in Reston CDP was 24,096 in 2008.

Within Reston the primary industries were Profession, Scientific & Management (31%), Educational (17%) and Public Administration (10%).

Age Profiles

As of 2008, the median age in Reston was 41.6 years. The majority of residents fell between 25 and 54 years old (45% of the population). (US Census Bureau, 2010)

AGE DEMOGRAPHICS 2008		
Under 5 years	*3,455*	*6.4%*
5 to 9 years	*2,873*	*5.4%*
10 to 14 years	*2,905*	*5.4%*
15 to 19 years	*2,334*	*4.3%*
20 to 24 years	*2,873*	*5.4%*
25 to 34 years	*6,774*	*12.6%*
35 to 44 years	*8,236*	*15.3%*
45 to 54 years	*9,183*	*17.1%*
55 to 59 years	*4,433*	*8.3%*
60 to 64 years	*4,615*	*8.6%*
65 to 74 years	*3,924*	*7.3%*
75 to 84 years	*1,487*	*2.8%*
85 years and over	*587*	*1.1%*
Median age (years)	*41.6*	

Social Characteristics

54.9% of households were families while 45.1% are non-families. The average household size was 2.21 people.

75% of households speak English as the primary language.

77% was of Caucasian decent; while 10% are Asian and 7% are black.

Home Values

The median home value for single-family detached, single-family attached and multi-family units in Reston is $517,003 as of January 2008.

Housing Units

Between 2000 and 2010, Reston CDP saw an annual increase in the number of housing units of 2.0%. Growth from 2010 to 2015 is estimated annually at 1.4%, and from 2015 to 2020 at 1.7% annually.

Mode of Transportation to Work

Of workers age 16 and older, 77.8% drive alone, 11.2% Carpool, 2.3% ride Metro or Rail, 1.4% ride the bus and 1.5% walk or bicycle. (US Census Bureau, 2010)

Educational Attainment

Of persons aged 25 years or older, Reston CDP has a high share of residents with a Bachelors degree or higher at 62.5%. Approximately 30.5% have a high school diploma or equivalent, some college or an Associates degree. The remaining 7.0% have less than a high school degree.

3.2 Retail Analysis

3.2.1 Demand Analysis

To determine the demand for retail at the site, BJA focused on three types of demand analysis; fundamental demand analysis, demand analysis based on population growth and demand analysis based on the economic base analysis. Their analysis focused on the one and three mile radius. Since the Pomeray Group is most likely looking at support retail for the site, PG thought using a maximum of a three mile radius was a wise choice. Most of the retail customers will either come from the residents of the project or neighboring office and residential areas. Metro riders will also play a role in the demand, but with retail also being proposed by Comstock across the street where the metro stop will be located, most riders may first look for retailers in that development before crossing the street. The project may see some demand from the bicycle and pedestrian traffic on the W&OD trail located on the other side of Sunset Hills. This could entice a bicycle sales/service shop to the development.

5.4 Demand Analysis

Below are three different methods of analyzing the demand for retail services in the proposed projects trade area. First analysis is a fundamental demand analysis, second is a demand analysis based on population growth, and third is a demand analysis based on the economic base analysis.

5.4.1 Fundamental Demand Analysis (Information from CoStar – See Attachment 4)

5.4.1.1 Primary Market (1 mile radius of site)

2009 Statistics:		
Households within 1 mile radius		*3,141*
Persons per household within 1 mile radius		*2.21*
Household Growth annually		*0.2%*
Income growth annually		*2%*
Therefore the 2014 projections:		
2014 Estimated Households		*3,146*
2014 Estimate Annual Median income per household	*(after tax)*	*$63,760*

2014 Estimated income per household to be spent on Entertainment and Apparel/Services *$6,121*
2014 Estimated Total Demand for Entertainment and Apparel/Services $19,256,595

7.4.1.2 Primary and Secondary Market (3 mile radius)

2009 Statistics:
Households *29,960*
Household Growth *0.86% annually*
Annual Median income per household (after 36% tax) $63,760
Income growth *2% annually*

Therefore the 2014 projections:
2014 Estimated Households *30,483*
2014 Estimate Annual Median income per household (after tax) $70,396
2014 Estimated income per household to be spent on Entertainment and Apparel/Services *$6,121*
2014 Estimated Total Demand for Entertainment and Apparel/Services $186,586,443

5.4.2 Demand based on Projected Population Growth (3 mile radius)

2009 Population (Costar) *74,803*
Estimated growth (Costar) *1.3% total*

2014 Estimated Future Population *75,802*
Average Household Size (US Census) *2.21*
2014 Estimated expenditure on Entertainment and Apparel/Services per person (after tax) *$2,770*
2014 Estimated Total Demand for Entertainment and Apparel/Services: $209,947,530

5.4.3 Economic Base Analysis (Reston CDP) (Information from 2008 US Census - See Attachment 5)

Economic Sector	*Regional %*	*Local Region*	*E*	*US %*	*United States*	*E*	*LQ*
Construction	*4%*	*1,246*	*0.023*	*8%*	*24,324,778*	*0.08*	*0.2905*
Manufacturing	*2%*	*623*	*0.012*	*11%*	*33,446,570*	*0.11*	*0.1056*
Wholesale trade	*1%*	*312*	*0.006*	*3%*	*9,121,792*	*0.03*	*0.1937*
Retail trade	*7%*	*2,181*	*0.041*	*12%*	*36,487,167*	*0.12*	*0.3389*
Transportation and warehousing and utilities	*2%*	*623*	*0.012*	*5%*	*15,202,986*	*0.05*	*0.2324*
Information	*7%*	*2,181*	*0.041*	*2%*	*6,081,194*	*0.02*	*2.0334*
Finance, insurance, real estate	*7%*	*2,181*	*0.041*	*7%*	*21,284,181*	*0.07*	*0.5810*
Professional, scientific, mgmnt, admin., waste mgmnt	*31%*	*9,657*	*0.180*	*10%*	*30,405,972*	*0.1*	*1.8010*
Education	*17%*	*5,296*	*0.099*	*21%*	*63,852,542*	*0.21*	*0.4703*
Arts/Entertainment	*6%*	*1,869*	*0.035*	*9%*	*27,365,375*	*0.09*	*0.3873*
Other Services except public Admin	*4%*	*1,246*	*0.023*	*5%*	*15,202,986*	*0.05*	*0.4648*
Public Administration	*10%*	*3,115*	*0.058*	*5%*	*15,202,986*	*0.05*	*1.1619*
Other	*2%*	*623*	*0.012*	*2%*	*6,081,194*	*0.02*	*0.5810*
Total employment	*100%*	*31,151*		*100%*	*304,059,724*		
Total population							

		53,619			*304,059,724*		

Basic and Non-basic Employment

Economic Sector	*LQ*	*LQ > 1 (yes/no)*	*If yes, then (LQ-1)/LQ*	*Basic**	*Non-basic**
Construction	*0.2905*	*No*	*-*	*-*	*1,246*
Manufacturing	*0.1056*	*No*	*-*	*-*	*623*
Wholesale trade	*0.1937*	*No*	*-*	*-*	*312*
Retail trade	*0.3389*	*No*	*-*	*-*	*2,181*
Transportation and warehousing and utilities	*0.2324*	*No*	*-*	*-*	*623*
Information	*2.0334*	*Yes*	*0.51*	*1,108*	*1,072*
Finance, insurance, real estate	*0.5810*	*No*	*-*	*-*	*2,181*
Professional, scientific, management, administrative, waste management	*1.8010*	*Yes*	*0.44*	*4,295*	*5,362*
Education	*0.4703*	*No*	*-*	*-*	*5,296*
Arts/Entertainment	*0.3873*	*No*	*-*	*-*	*1,869*
Other Services except public Admin	*0.4648*	*No*	*-*	*-*	*1,246*
Public Administration	*1.1619*	*Yes*	*0.14*	*434*	*2,681*
Other	*0.5810*	*No*	*-*	*-*	*623*
TOTAL				*5,837*	*25,314*

Economic Base Multiplier = Total Employment/Basic Employment *5.34*

Population to Employment Ratio = Total Population/Total Employment *1.72*

2014 Estimated Future Basic Employment	*(3% growth)*	*6,012*
2014 Estimated Future Total Employment		*32,086*
2014 Estimated Future Population		*55,228*

2014 Estimated Demand ($2,770/person):
$154,981,560

5.4.4 Demand Analysis Conclusions

The three analyses reveal the following information:

Fundamental Demand Analysis Trade Area:
$186,586,443
Demand Based on Population Growth Trade Area:
$209,947,530
Economic Base Analysis Reston CDP (not specific Trade Area):
$154,981,560

The above noted analysis reveals a range from $154M to $209M of retail demand for Entertainment and Apparel/Services.

The EBM Analysis is arbitrary low due to the fact that the Reston CDP analyzed by the US Census is a smaller area than our 3 mile radius trade area utilized in the other two analyses. Further, 3% growth for Basic Employment is a conservative assumption for a five year period for the area gaining Metro accessibility.

The Demand Based on Population Growth reveals that a larger household size is potentially projected in 2014 than currently estimated. The US Census reveals a household size of 2.21 people in 2009; however, when reviewing the population growth in 2014 and the household growth in 2014 the calculation comes closer to 2.45 people per household. If 2.45 people per household is utilized, the analysis reveals a demand closer to $186M.

Therefore, it is projected that the trade area demand for the proposed project has a retail demand of roughly $186M which equates to 3.4M SF of retail ($55/SF).

With roughly 3.4 million square feet of demand available, the Pomeray Group is confident that the demand will be present for the 75,000 square feet proposed on the site.

3.2.2 Supply Analysis

For the supply analysis BJA has also focused on the one and three mile radius. As you will see below, the Pomeray Group also feels that there is currently a modest supply of retail in the

area, especially in the one mile radius. According to CoStar's mid-year retail report, the Dulles Corridor currently has a 4.3% vacancy rate with 739,604 square feet of vacant space. For the general retail segment, which is what the retail in this project would be, the vacancy rate is 1% with only 46,440 square feet available. (The CoStar Retail Report, Mid-Year 2010, Washington, DC Retail Market, 2010) The closest shopping center, Plaza of America, is approximately three quarters of a mile west of the property. It is a Whole Foods anchored center with a CVS, Borders and Champs as secondary tenants. There is no retail center in close proximity either to the north, south and east of the property. The closest retail center south of Toll Road is approximately one mile south east from the property. That shopping center is called South Lake Shopping center and is anchored by a Safeway along with Subway and CVS.

As for the planned supply, Comstock's application is the only one currently in the pipeline. PG met with Larry Bergner of Comstock Partners to discuss their plan. He mentioned that they would probably end up with between 75,000-90,000 square feet of retail, mostly focusing on restaurant uses. (Bergner, 2010) PG believes that this amount of retail would not affect the leasing strategy for the development, especially with a potential demand of 3.4 million square feet.

I. Supply Analysis

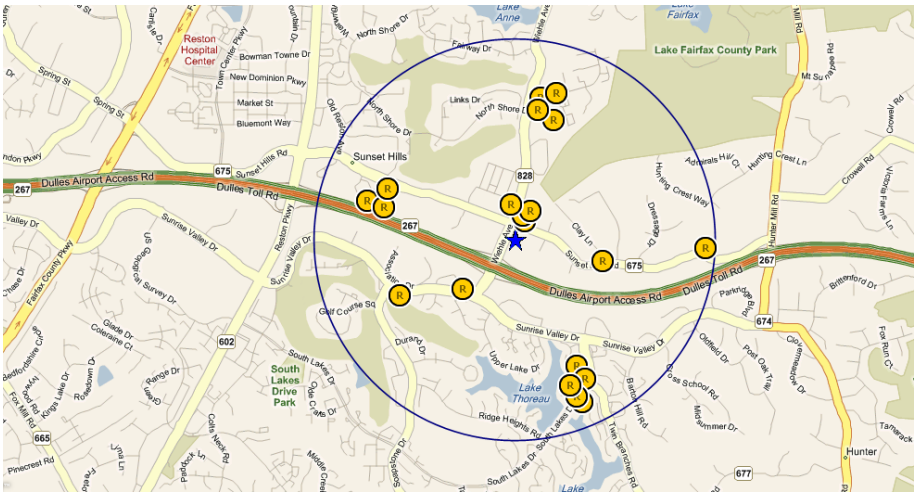
6.1 Area Supply

6.1.1 Existing Supply (Information from Costar – See Attachment 6)

1 Mile Radius
The below table and map represent the retail projects located within 1 mile of the subject property.

1Q 2010

Available Square Footage	*452,335*
Vacant	***15,204***
Vacancy Rate	***3.36%***
Average Gross Absorption per Quarter	*3,809*
Average Rental Rate	*$25.88*
Type of Lease	*NNN*

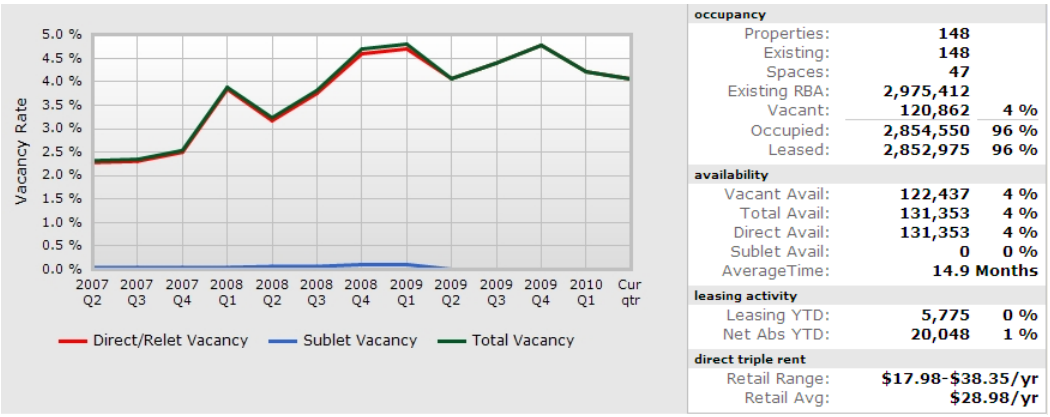


One mile radius indicating retail locations – Costar

3 Mile Radius

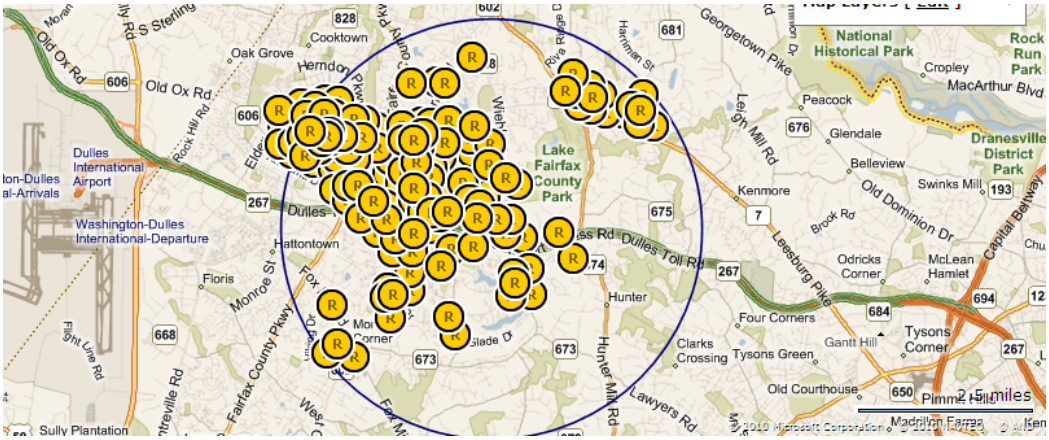
The below table, chart, and map represent the retail projects located within 3 miles of the subject property.

Available Square Footage	*2,975,412*
Vacant	***120,862***
Vacancy Rate	***4%***
Average Gross Absorption per Quarter	*22,014*
Average Rental Rate	*$28.98*
Type of Lease	*NNN*



occupancy		
Properties:	148	
Existing:	148	
Spaces:	47	
Existing RBA:	2,975,412	
Vacant:	120,862	4 %
Occupied:	2,854,550	96 %
Leased:	2,852,975	96 %
availability		
Vacant Avail:	122,437	4 %
Total Avail:	131,353	4 %
Direct Avail:	131,353	4 %
Sublet Avail:	0	0 %
AverageTime:	14.9 Months	
leasing activity		
Leasing YTD:	5,775	0 %
Net Abs YTD:	20,048	1 %
direct triple rent		
Retail Range:	$17.98-$38.35/yr	
Retail Avg:	$28.98/yr	

Three mile radius statistics – Costar



Three mile radius indicating retail locations – Costar

3.2.2.1 Comparables

Since there is no current TOD development in Reston, BJA had to go outside of the three mile radius to find comparables properties and then adjust them accordingly. BJA utilized Midtown Reston, which is located in the Reston Town Center as one of their comparables because of its similar mix of uses. They discounted that property by 10% on the accessibility criteria. The other two properties also have the same uses but have Metro in close proximity.

6.2 Comparable Property Analysis

6.2.1 Condominiums at Carlyle Square – Property 1

The Condominiums at Carlyle Square is a 4 story, 148 unit condo development with first floor service retail. Directly adjacent to this development is a 205 unit apartment building that utilizes the service retail, as well. It was chosen as a comparable property due to its proximity to Metro (1 mile), the mixed use nature of the project (residential above), and it's accessibility to a major traffic thoroughfare (395/95).

6.2.2 Midtown Reston – Property 2

This property is an appropriate comparable due to its residential component and its similar demographics.

Midtown Reston is owned and operated by Kettler, a Washington, DC based developer. The project was built in 2006. This retail space targets a higher end consumer with more disposable income than projected for the subject site. It is located in the Reston Town Center, with designated parking for the retail space.

The property has a total of 18,500 SQF of retail and has a 10% vacancy rate. Rents average $45/SQF.

6.2.3 2291 Wilson Boulevard – Property 3

2201 Wilson is a 219 unit multi-family apartment building with 23,240 square feet of ground floor retail. It is located across the street from the Courthouse Metro Station in Arlington, VA. The property is owned by Smith Property Holdings, a Colorado based firm, and is managed by Archstone.

2201 Wilson is an appropriate comparable property to the subject property due to its close proximity to Metro transit and similar building mix characteristics.8.2.4 Comparison Chart

Comparable Rental Adjustment Chart

	1	*2*	*3*
Year Built	*2007*	*2006*	*2000*
Size	*12,000 SF*	*18,500 SF*	*23,240 SF*
Occupancy	*80%*	*90%*	*100%*
Lease Type	*NNN*	*NNN*	*NNN*
Rent	*$37.50*	*$45*	*$37.50*
Operating Expenses	*$6.00*	*Not Available*	*Not Available*
Primary Customer	*Residential*	*Residential /Pedestrians*	*Residential/ Pedestrians*
Accessibility	*-5%*	***-10%***	*0%*
Area Demographics	*0%*	*0%*	*0%*
Regulatory Requirements	*-5%*	*-5%*	*-5%*
Parking	*+5%*	*+5%*	*-5%*
Development Features	*+5%*	*0%*	*+5%*
Amount of Residential Development	*+10%*	*+5%*	*0%*
Competitive Properties	*-5%*	*0%*	*-5%*
TOTAL ADJUSTMENTS	*5%*	*-5%*	*-10%*
Indicated Rent Per SF	***$39.40***	***$42.75***	***$33.75***

Therefore, the rental rate at the proposed development utilized in the financial analysis is $38.63 NNN (an average of the above adjusted rates) and the operating expense estimate is $6.00/SF.

3.2.3 Retail Conclusion

PG is confident after reviewing BJA's study that the residential development will be able to support the retail, strictly based on the current demand and the new demand being created by the project. As clearly shown in the analysis, the current demand is high and will continue to be high with the population increases and job growth alone. Metro will only help increase that demand. Also the current supply is low and even with the Comstock development, PG feels that there will be enough demand on our site for a minimum of support retail. With floor plates of 25,000 square feet, the project has the potential of having a total 75,000 square feet of retail.

II. Recommendations

In conclusion, the proposed project is projected to be a successful venture. There is concrete evidence that the demand will exist for the retail product in 2014. Further, given the fact that this development will include 700 residential units, there will be an increased demand specifically for service based retailers.

The back of the envelope financial analysis reveals that the proposed project is a lucrative investment. It is projected that by 2014, the financial markets will have recovered and conservative estimates have been included for loan terms.

It is recommended that the developer continue to monitor the progress of the Metro rail expansion to coordinate project delivery. Additionally, it is recommended that the developer conduct a thorough market study on the residential feasibility at this site. Although the report demonstrates a demand for retail in 2014 without the rail expansion, the residential component of the development will most likely require the rail expansion to be successful. Further, it is recommended that the developer receive regular updates from the local building officials to understand the final approvals for the Comstock property (and properties within the trade area) and make necessary adjustments to the feasibility analysis.

3.3 Residential Analysis

3.3.1 Current Market Conditions

As highlighted in GM&W's study, the current market condition for apartments is strong. With an average vacancy rate of 5.3% for high rise residential buildings in Fairfax and a 5.1% rent growth between 2007-2008, the Pomeray Group feels that there is excess demand for quality high rise apartment units. With only 8.1% of the total supply being built in the last six years there

is a strong need for new product. Additionally, low rise garden style residential makes up 80% of the entire market. (Grindall, Moore, & Warren, 2010) When Fairfax County first experienced development and the area was much more suburban and lacking in the dense, urban characteristics (including Metro) for which the County is currently planning, most of the multi-family development was for suburban garden style apartments. This explains the high percentage of older product. With the expansion of the Silver Line into Tysons and Reston, Fairfax is beginning to plan for more high rise apartments. GM&W also noted that there is a current supply shortage of efficiency units. This again could be attributed to the mostly low rise garden style market. People in the 80's were not moving to Fairfax County for efficiencies, but now with a more cosmopolitan population and a greater concentration of jobs in Fairfax County, the demand for efficiency apartments appears to be there.

2.1.1 Housing Market Observations

The mix of existing rental units commands an average $1,311 per unit and consists of a mix of products from townhome, to low rise, mid rise and high rise. Rents grew 5.1% from 2007 to 2008 which show that there is unmet demand. *We took a special look at Fairfax County's high rise units. These units make up 9.2 % of the existing rental market or 5830 units. While the number is only a small percentage of the entire market presently, we feel with the coming of transit this number will increase. Since we are looking at a 12 story TOD development this appeared to be our target product.* ***While Fairfax rental units average a vacancy rate of 5.9% the high rise buildings vacancy runs at 5.3%.***

Fairfax County is comprised of low-rise, mid-rise and high-rise multifamily buildings as well as townhouse rental units. ***Low rise makes up almost 80% of the entire market and runs the highest vacancy of approximately 6.0%.*** *Townhome runs the lowest vacancy of 5.0% and high rise comes in second with 5.3% vacancy. As mentioned earlier, 9.2% of the Fairfax market consists of high-rise rental units, and townhome is just under 5%.*

One and two bedroom units comprise of 83% of the greater Fairfax County market and both run below the market vacancy of 5.9%. ***The efficiency units make up only 1,235 units and run a surprising low vacancy of 4.3%. We see potential to use a greater mix of efficiency units in the TOD development.*** *The overall Fairfax County market is growing at a rapid rate without transit. The coming of transit will be an amenity which will only make a stronger community.*

Additionally, we looked at the age of the household rental units in the marketplace. ***There are 5,048 units that are less than six years old, which means the number of***

rental units developed in the last 6 years comprise 8.11% of the total supply. *When looking at the vacancy of the units that are 6 years old or less, we saw an 8.1% vacancy but attribute much of that vacancy to lease up. Once the building has stabilized or matured in the market we see the lowest vacancy of 4.7% on units 6 to 10 years of age.*

These numbers allow one to formulate some ideas about high rise development in the County, but one needs to focus more on the submarket and the affects of TOD on the submarket.

2.1.2 Submarket

The 5 mile radius around our site had a 10% housing growth rate between 2000 and 2009 and is estimated to continue to grow another 3.40% from 2009 to 2014. *This allows one to see the explosive growth this area saw during the housing boom, and the areas expected future growth in a submarket.*

Currently, there are 72,825 households in a 5 mile radius of the subject site which consist of 2.81 persons per household. ***Of the 72,825 households, 55,097 (75.7%) are owned and 17,728 (24.3%) are rented. Fairfax County as a whole is 70.12% owners and 29.88% renters which are represented on the graph below in green.*** *These statistics show that households on average in a 5 mile radius have a greater potential for ownership than rental when compared to County statistics.*

Interestingly, when you drill down to the one mile radius surrounding the subject property the level rental increases to 42.98% in comparison to 57.02% ownership. *Therefore in a one mile radius rental far exceed not only the 5 mile radius, but also the County as a whole. This is not attributable to income because the median income is still a strong $102,000 per household.*

We also pulled some general submarket vacancy information for the Reston area. While these were not included in our study of the 1, 3, 5 mile demographic studies they give an idea of the submarket vacancy. ***The Hunter Mills area runs a 7.5% market vacancy.***

The market vacancy is higher in this area than most of Fairfax County's submarkets, but the transit station will likely be a "game changer" to the area vacancy.

3.3.2 Demand Analysis

As was discussed in the previous section, current conditions in the market pointed toward the existence of significant demand for new apartments especially efficiencies. In this section GM&W looked at other drivers of demand including current population, population growth, increase desire to live near transit and the ongoing change in the makeup of the US household. The household size is shrinking due to the increase numbers in empty nesters, singles and non-family residents. GM&W states that the nuclear family which had traditionally made up 40% of household now makes up only 24% of households in the U.S. This continuing shift would lead to an increase demand for well positioned TOD developments.

2.4 Fundamental Demand Forecast

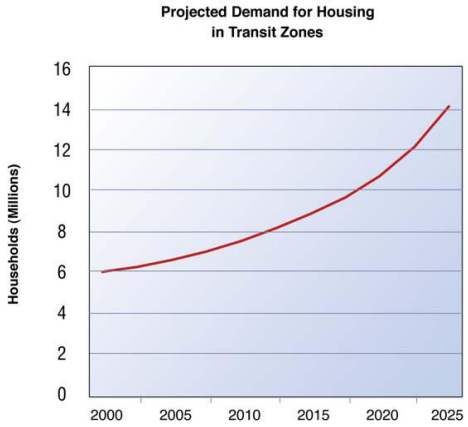
It is estimated that population will grow from its current amount of 205,615 to 212,225 in 2014. *This is a growth of 3.2%, which is considerably less than growth from 2000 to 2009, which was 9.30%. It is possible that the primary market area experienced such growth from 2000 to 2009 due to the massive success of Reston Town Center. In addition, these projections are limited to 2014, so demand for metro is most likely not accounted for in these numbers. It is estimated that households will grow at a slightly faster rate than population at 3.4% going from 72,825 to 75,280, as compared to 10% from 2000 to 2009.*

Since the metro is still four years from being up and running in 2014 and the proprietary site information does not forecast past this date, we are forced to use some anecdotal evidence and examples as provided by the effects of transit on previous locations. ***A fundamental shift in demand and locational preference is exhibited in demographic trends underway, and each has the potential to increase demand for urban style housing near transit.***

Household size is shrinking, due to more empty nesters, singles and non-family residents. The nuclear family which had traditionally made up 40% of household now makes up only 24% of households in the U.S. *A few important observations about transit in general may help to paint some picture of future demand at the subject site. 1) Household sizes are smaller in transit zones. On average 51% of households near transit are single-person households, as compared to 27% in metro region as whole. 2)*

Contrary to preconception, household age in transit zone is similar to the region. 3) Incomes of transit zone residents are similar in all regions. Virtually every transit region in the country has incomes of $10,000 less than median in the region. 4) Home ownership rates are lower in transit zones.

In addition to these general demand characteristics, it is possible to further analyze the demand for housing near transit. ***It is estimated that in the next 20 years, 14.6 million households nationwide will be looking for housing within ½ miles of fixed transit****. The demand is expected to be more modest in the near term but grow significantly as more transit completed and become available.*



As would be expected, the demand in areas with expanding transit service is expected to grow at a faster rate*. These projections along with the supporting demographic data show that the potential for strong demand at the subject site exists.*

Housing Demand Calculations

An important part of the analysis to take the demographic data and calculate the actual number of housing unit demanded. In this case, we analyzed both a 5 mile and 2 mile ring around the subject site. Due to our multi-nuclei market area delineation, we also calculated the demand for .5 mile ring around the Arlington/Ballston Metro stop, the proposed Reston metro stop and the proposed Herndon metro stop. The process for these calculations is as follows:

1) *Subtract nonhousehold population from the total population.*
    a. *Nonhousehold is defined as those who occupy dormitory housing, military personnel living on base and senior living institutions.*
2) *Divide this number by the average persons per household to arrive at occupied household units.*

3) *Divide this number by (1-vacancy allowance) to arrive at total housing units demanded.*
    a. *The vacancy allowance used was the overall market vacant rate.*
4) *The total housing units demanded is then compared to the actual housing stock in each area.*

Multi-Nulcei Demand Housing Demand Calculations					
	Arlington .5 Mile	Reston .5 Mile	Herndon .5 Mile	Wiehle 2 Mile	Wiehle 5 Mile
Total Population	**19698**	**3146**	**6788**	**47069**	**222,574**
Nonhousehold Population					
Senior Living	1000	250	0	1500	5000
College Dorms	700	0	0	0	0
Military Housing	0	0	0	0	0
Total	1700	250	0	1500	5000
Total Houshold Population	**17998**	**2896**	**6788**	**45569**	217,574
Average Person/Houshold	1.7	1.8	2.57	2.6	2.7
Occupied Units	**10587**	**1609**	**2641**	**17527**	**80583**
Vacancy Alllowance	3%	5%	2%	3%	3.20%
Total Housing Units Demanded	10914	1694	2695	18069	83247
Total Actual In Market	11614	1588	2646	19032	76,580
Total Demanded	-700	106	49	-963	6667

**The demographic data for these calculations was all pulled from Policy Map*

As can be seen from the calculations above, excess demand is present in certain market areas. The Reston .5 mile, Herndon .5 mile and the Wiehle 5 mile all show demand to be above current housing stock, which could potentially bode well for the project. *The two areas that do not show excess demand, Arlington .5 mile and Wiehle 2 mile do show a 94% and 95% demand to supply percentage respectively, so it does not appear that the amount of excess housing is so great as to completely dilute the demand for future product.* ***It must also be kept in mind that the subject property is intended to capture an increase in demand brought by the metro line. Due to the strong current demand figures and the demand,*** *which will be generated by the metro, it does appear that this site is strongly positioned.*

3.3.3 Supply Analysis

As outlined in GM&W analysis, the current supply of apartments in the primary market is limited. As a result the analysis has to look outside of the primary market. GM&W looked at two properties in and around the Reston Town Center, two in Herndon and the rest around metro sites in Arlington. Although Arlington is a long way away, those properties are valuable comparables when adjusted for their difference in rent and accessibility. Also most of the newer residential buildings built in the last cycle were built as condos to take advantage of the strong demand at the time. This resulted in no new rental apartments being built in our primary and secondary market for quite some time.

As for the proposed supply, as was the case with the retail, Comstock's application is currently the only one in the pipeline. (Merkel, 2010) During the meeting with Mr. Bergner, PG also discussed their plan for residential. Comstock is currently planning on building between 500 and 600 units, all efficiencies, one bedroom, two bedrooms, and no three bedrooms. They also plan for 1/3 of their units to have dens. They are not yet sure how many of those units will be condo versus rental. (Bergner, 2010) The pipeline situation may change as the market improves and other developers start on other projects. This is something that PG will continually monitor through the Planning Office, to make sure PG is aware and study any other projects being proposed that could effect the future supply.

3.3.3.1 Comparables

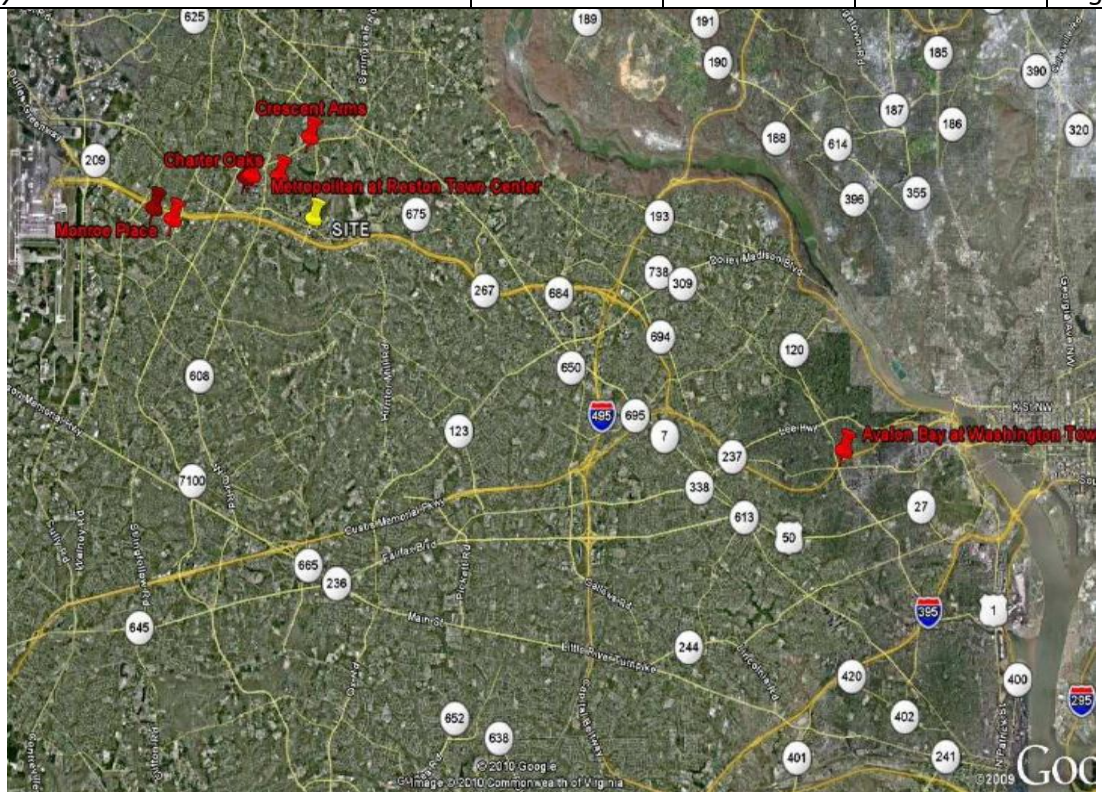
3.1 Competitive Supply within Designated Market Areas

As discussed previously in Section 1.5.2 (see above), the market areas relevant to the Subject Property have been organized as Primary Market Areas, Secondary Market Areas and Tertiary Market Areas. ***For purposes of evaluating the competitive supply, comparable projects were selected from within the Primary Market Areas of the Ballston Ring, Reston Town Center Ring and the Herndon-Monroe Ring. After conducting a thorough analysis of the Wiehle Ring by way of field research and secondary data analysis, no comparable project currently exists within the Wiehle Ring.***

3.2 Comparable Properties

Summaries of each of the following comparable properties located in the Primary Market Areas are attached as Exhibit 6.

The Metropolitan at Reston Town Center	*Multifamily*	*2006*	*288*	*High-rise*
Avalon Bay at Ballston Washington Towers	*Multifamily*	*1989*	*344*	*Mid-Rise*
Monroe Place/Herndon/Kettler	*Multifamily*	*2006*	*202*	*Mid-Rise*
Market Street at Reston	*Condo*	*2003*	*N/A*	*Garden*
Charter Oaks/Reston/Archstone	*Multifamily*	*1970*	*260*	*Low-Rise*
Crescent Apartments	*Multifamily*	*1963*	*181*	*Low-Rise*
Metropolitan/Herndon/Kettler	*Multifamily*	*2004*	*244*	*Mid-Rise*
Archstone Ballston Square	*MF-MXD Use*	*1990*	*357*	*High-Rise*
Ballston Place	*MF-MXD Use*	*1999*	*383*	*High-Rise*
Liberty Tower	*MF-MXD Use*	*2008*	*235*	*High-Rise*



3.3.4 Residential Conclusion

GM&W's study has reaffirmed PG's original assessment that there is sufficient demand for the proposed apartment units. As was the conclusion in the retail section, the current demand is high and will continue to be high as the population increases and job continue to come to Northern Virginia. The arrival of Metro will only help increase that demand and will help ensure a healthy lease up period.

Based on the preceding analysis, the following conclusions and recommendations can be reached regarding the proposed project:

- ***There is significant present demand in certain market areas.*** *The Reston 0.5 Mile Ring, the Herndon 0.5 Mile Ring and the Wiehle 5 Mile Ring all indicate demand in excess of the current housing stock. In addition, given the TOD nature of the project subject property, the project is intended to capture an increase in demand delivered by the Dulles Metroline.* ***Due to the strong current demand figures and the demand, which will be generated by the metro, it does appear that this site is strongly positioned.***

- *The project has the support and cooperation of local government officials. The recent approval of the neighboring Comstock project provides contemporary evidence that the zoning and planning process is well-positioned to encourage and reward the proposed project at the subject property.*

- ***The market conditions indicate that the market should be able to absorb several new projects over the next few years.*** *The project will primarily compete with other new projects in the immediate market area and, to a certain extent, other new projects along the Dulles Metro.*

- ***Based upon conservative estimates, the proposed project is well positioned to deliver a strong return.*** *In particular, the anticipated timing of delivery will likely bolster the absorption rate experienced by comparable properties. In addition, the stabilization period sufficiently buffers the risk associated with marketing and leasing such a large project all at once.*

IV. SITE PLANNING AND DESIGN

4.1 Fairfax County Land Use Policy

The Fairfax County Board of Supervisors has begun the process of promoting the concentration of development around the future metro stations by increasing the density and creating a special study area comprehensive plan for the parcels effected by the arrival of Metro. They realize that this is their opportunity to properly plan the areas around metro and take full opportunity of the economic dollars that can be brought in by such an expansion.

4.1.1 Looking at Arlington County

Fairfax County is specifically looking at the success of Metro in Arlington County to help guide their planning agenda. In a presentation given by Arlington County looking at their last 30 years with Metro, they speak of several key elements that contributed to their success including "concentrating high and mid redevelopment around transit stations and taper down to existing neighborhoods", "Encourage a mix of uses and services in station areas", and "Create high quality pedestrian environments and enhanced open space". (Brosnan, 2008) They also focused individually on each station area, creating a sector plan for each station. Each plan focused on an area of no more than ¼ mile from the metro station. They were willing to give developers additional density in those areas for developments that would meet their sector plan criteria.

Arlington County measures their success by looking at the numbers. In 1970 there were 22,000 jobs, 5.5 million square feet of office, 7,000 housing units and in 2008 there were 90,000 jobs, 20.8 million square feet of office, 26,572 housing units. The Metro ridership in Rosslyn went from 13,637 in 1991 to 31,662 in 2006. The Ballston stop went from 9,482 riders in 1991 to 24,150 in 2006. 73% of the Metro riders in Arlington County walk to the station compared to 56% at the other four suburban Orange line stations. Also less than half of the residents drive to work with 39.3% using transit, 10.5% walk or bike and 2.3% work at home. (Brosnan, 2008)

"Transit investments can be used as a catalyst to reshape communities", "Multimodal transportation strategies can result in substantial benefits – allowing continued growth with less reliance on autos", "Station areas must be able to satisfy the daily need of users if they are to really to leave their cars behind (mixed use)" and "Reduce parking requirements". (Brosnan, 2008) These are all lessons that Arlington learned through the process of developing around Metro, and are ideas that Fairfax County will hopefully follow.

4.2 Entitlement Process

The Pomeray Group met with Heidi Merkel who is the Senior Planner with Fairfax County handling the subject area. During the meeting she provided us with the major application requirements that would be needed to gain staff support:

1) The County's preference is that both properties be joined into one parcel and ultimately become one project.

2) A pedestrian access (bridge or tunnel) will be needed to connect this project to the Metro Kiss and Ride lot across the street.

3) The development team must work with neighboring owners and allow them to have input in the design process.

4) The County is open to looking at different density mixes and is willing to give density credits for Affordable Dwelling Units (ADU). (Merkel, 2010)

Following those general guidelines, a rezoning application will need to be drafted and filed with the county. This is a lengthy application that requires showing the current condition of the site, a proposed bubble plan, proposed uses and maximum square footage. It also requires a proffers package which will have several back and forth of negotiations. As PG learned from our meeting with Mr. Bergner, Comstock's rezoning took eight months because of the county's anxiousness to get Metro sites approved. (Bergner, 2010) PG feels the rezoning process will be very similar to Comstock's, and should take not more than eight months as well. Ms. Merkel also mentioned that this property could reach a maximum of 2.5 FAR, which has since been reinforced since Comstock recently received their rezoning approval at a 2.5 FAR.

It will be important to involve the area residents before we file the rezoning application. The Reston Association headed by its Director Cate Fulkerson will be an important ally in the rezoning process. (Smith, 2010)(DiCicco, 2010) PG will work on cultivating that relationship and setting up public workshops to educate the residents about the projects proposal and also to get their feedback. This will especially help the application during the public hearing which is held at the county. Public hearings are usually a make or break opportunity for a project. If the residents voice mostly positive feedback then the Board of Supervisors will most likely approve the application.

Once the rezoning is complete, PG will file the preliminary site plan with the county showing specifically the layout of the site. There are several rounds of comments with the county staff which then hopefully leads to a preliminary approval from the County Commission. The next step is filling a final site plan which will show all details of the site to be develop. During this time PG is also beginning to finalize the construction drawings for Tower 1. Once the final site plan is approved by the Board of Supervisors, PG is able to file the actual construction drawings. PG expects the whole entitlement process from start to finish to take approximately eighteen months.

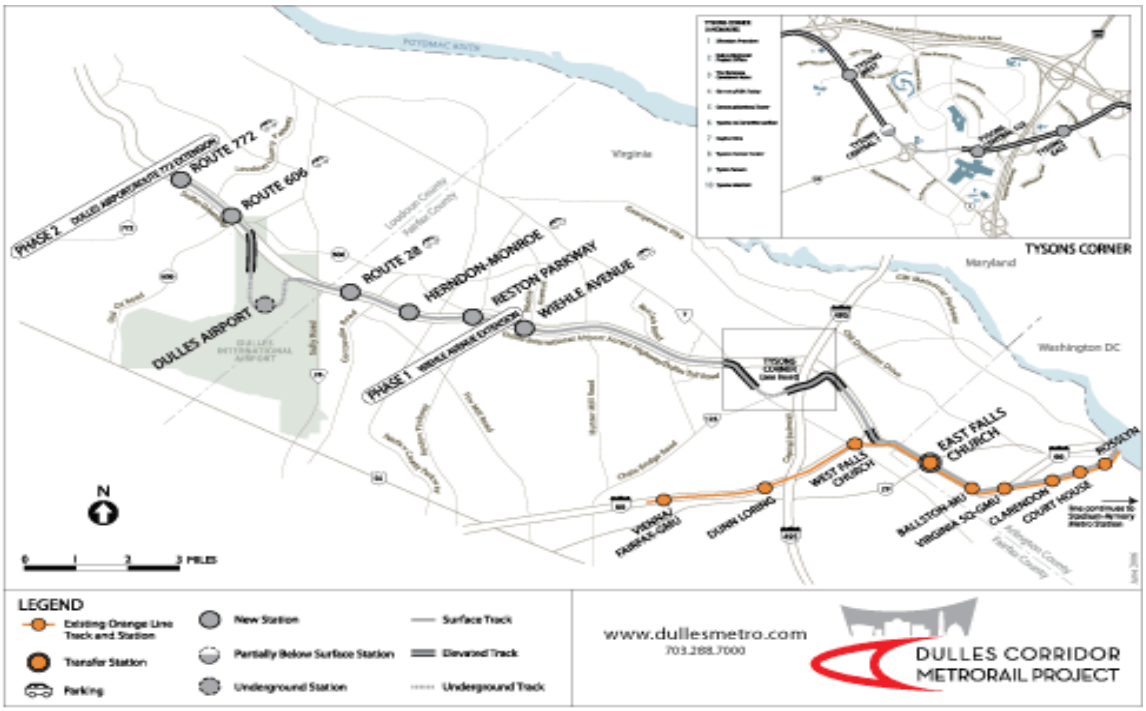
Wiehle Commons Tower 1 Entitlement Timeline		
	Start	**Finish**
File Rezoning	1/1/2011	
Prepare Preliminary Site Plan	6/1/2011	8/31/2011
Rezoning Approval		8/31/2011
File Preliminary Site Plan	9/1/2011	
Preliminary Site Plan Approval		2/1/2012
Prepare Final Site Plan	2/1/2012	3/1/2012
File Final Site Plan	3/1/2012	
Final Site Plan Approval		5/1/2012
File Construction Drawing	5/1/2012	
Construction Permit		6/30/2012

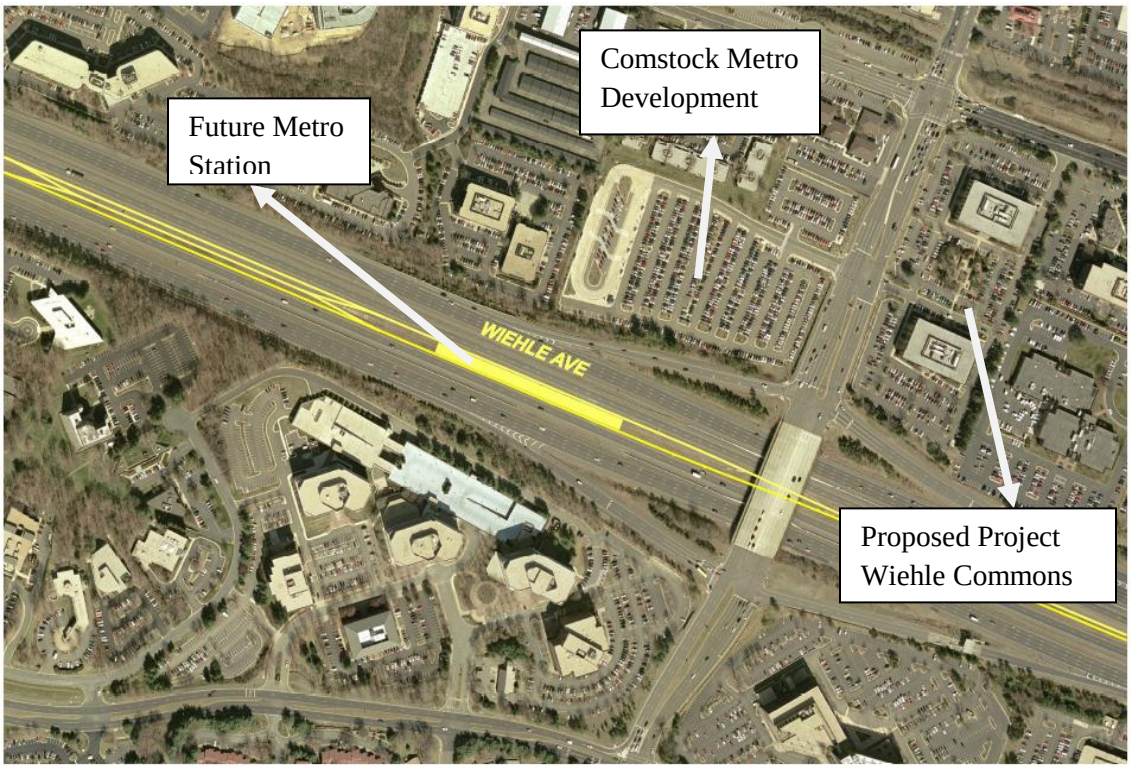
4.2 Metro Expansion

The Metropolitan Washington Airports Authority has begun the construction of the twenty-three mile Silver Line extension, which will begin at the existing Orange Line West Falls Church station and end at a future station in Ashburn Virginia, west of Dulles International Airport. The extension will serve the Tysons Corner area, the Reston-Herndon area, Dulles Airport and Ashburn Virginia. This extension had been on the drawing board for a long time with the ultimate goal of having Metro at an international airport. The Dulles Corridor, which represents the area from Tysons Corner to Dulles Airport, is considered the new 'power' corridor in the Washington DC area with top companies like Volkswagen relocating there. The Silver Line extension will help open up that corridor to new developments and offer people an alternative to using their car to get to those areas.

The Silver Line extension will include eleven stations and will be constructed in two phases. Phase 1 will begin at the West Falls Church Station and end at the Wiehle Avenue Station on the eastern edge of Reston. It will include four stations through Tysons Corner: Tysons East, Tysons Central 123, Tysons Central 7 and Tysons West. Construction of Phase 1 is expected to be completed in 2013. Phase 2 will start from the Wiehle Avenue Station and end in Ashburn, Virginia. It will include five stations: Reston Town Center, Herndon, Dulles Airport, Route 606 and Ashburn. A construction date has not yet been set for Phase 2, but it is expected to begin shortly after the completion of Phase 1.

All three stations planned for the Reston-Herndon area will be located in the middle of the Toll Road/Route 267. They will all have a walkway that will connect them to both sides of the road. At the Wiehle Metro Station, the walkway will connect both the kiss and ride lot located north of the metro stop and the office buildings to the south of the Metro stop.





The second will serve the existing Reston Town Center, which is currently developed as a high density mixed use project. The third Metro stop will be close to the Herndon exit and will

serve the Herndon community with special bus routes to connect Old Downtown Herndon, which has undergone some redevelopment recently and is slated for more mix use high rise developments. The funding for the Metro expansion to Reston will mostly came from Federal funds, along with special taxing districts along the Toll Road which includes businesses who will benefit from the arrival of Metro. Construction has commenced on the Wiehle Avenue Station, crews are clearing and preparing the median for metro rail construction.

4.3 The Kiss and Ride Public Private Deal

The Kiss and Ride lot located across the street is approximately 8.99 acres and is owned by Fairfax County. After going through a competitive bidding process, the county chose Comstock Partners and proceeded to enter into a public private deal to re-develop the Kiss and Ride lot. The county will enter into a 99 year land lease with Comstock for $1/year in return for Comstock building a 2,300 spaces structured parking lot on the site for the Metro stop. Comstock also owns a 3.48 acre parcel 100 yards west of the kiss and ride parcel that is connected by an existing easement. Comstock currently has one office building on that parcel, but have plans to add one more building with the access to Metro.

For the redevelopment of the Kiss and Ride lot, Comstock is proposing a total of 1.28 million square foot project that includes a mix of residential, office, hotel and retail. They have the option to increase the development to 1.34 million square feet if they set aside 12% of the residential units for workforce housing. Besides the 2,300 spaces structured parking lot they are building for the county for Metro riders, they are also planning on building more underground and structured parking to service the development. The underground parking will have up to 5 underground levels. (Bergner, 2010) They will also build a 12 bay bus garage with 45 parking spaces specifically allocated for the Kiss and Ride area. This facility will have a secure storage area for 150 bicycles. (County of Fairfax, 2010) They are working with an architect to blend part of their structured parking with the building façade to minimize the visual impact of a typical precast structured parking facility. (Merkel, 2010) The same approach was used at National Harbor successfully and it is difficult to differentiate the structured parking from the rest of the buildings.

The development is planned to occur in two phases. The first phase, which includes the county parcel, is proposed to have 979,096 SF of mixed use development. The second phase, which is the Comstock parcel, is proposed to have 305,518 SF of primarily office space. An additional 61,565 SF of bonus density for the workforce housing is planned to be included in phase one. The overall FAR designed for the project is 2.5 FAR excluding the bonus density. (County of Fairfax, 2010)

4.4 Site Design

Again keeping with the county's vision of creating unity and flow around the Metro stops, it is important for PG to look at the Comstock project when designing Wiehle Commons. Since they have already received their rezoning approval, they have the upper hand in beginning to create the vision for that area. It will be important for PG to work with them during the design phase to make sure both projects fit together.

Per the county's current language, the site would need to have more than 150,000 SF of retail to qualify for a TOD, however, after having met with Ms. Merkel, Senior Planner, it is the county's position that they are willing to be flexible with that requirement. She did mention that the county realizes that there can only be so much viable retail in a half mile radius of the Metro station. (Merkel, 2010)

With both parcels making up approximately 8.34 acres or 363,290 square feet, and assuming a rezoning approval for a 2.5 FAR density, the project would have a potential development size of 908,225 square feet. Assuming a per floor size of 25,000 square feet, there would be approximately three twelve story buildings with the rest of the site being allocated to parking and open space. Therefore, total retail square footage is projected to be 75,000 square feet and total residential square footage is 825,000 square feet. Following GM&W recommendation, the average unit size is expected to be roughly 983 square feet. Therefore with an 84% efficient building, the project is expected to yield approximately 603 units. Also the project will be split

up into three sections, Tower 1, Tower 2 and Tower 3 to allow for the staged takedown structure with the landowner.

Most of the parking will be underground with the exception of some surface parking spaces for visitors and retail users. Because Fairfax County is promoting a pedestrian friendly project, minimum set-backs will be required in order to facilitate the placement of retail directly along the sidewalks; minimum parking requirements will be demanded. This was confirmed by our meeting with Mr. Bergner, who mentioned that during Comstock's rezoning process, the county wanted to reduce parking as much as possible.

The pictures below are to illustrate what Tower 1 might look like once developed. This condo project called Carlton House was built in 2005 and is located across the street from the Reston Town Center. This project quickly sold out at prices ranging from $350,000 to $850,000 in 2005. Like Wiehle Commons, it has 12 stories and is located close to the Dulles Toll Road. The courtyard entrance with a circular shape is something the Pomeray Group may try replicate on this project.

V. FINANCIAL ANALYSIS

5.1 Equity Terms

Capital Contributions

Equity Partner – 90% of all cash needed to fund acquisition and development costs not funded by third party debt financing.

Pomeray – 10% of all cash needed to fund acquisition and developments costs not funded by third party financing.

Partnership Breakdown			Backend Promote
Investor I - Equity Partner	90.00%	$14,155,791	70.00%
Investor II - Pomeray	10.00%	$1,572,866	30.00%
Total Equity	100.00%	$15,728,657	100.00%

Distribution of Cash Flow

First distribution – 8% preferred return to Equity Partner

Second distribution – 90% to Equity Partner

10% to Pomeray

Development Fee

The development fee to be paid to Pomeray will be 2.5% of the hard costs

5.2 Debt Financing

The Pomeray Group has been working with Matt Deal at the Grandbridge Real Estate Capital Group to come up with a proper debt structure. Mr. Deal recommends going with FNMA for this deal. FNMA currently has the most attractive deal structure especially for a multi-family deal. Also the recourse at this time is much less with FNMA then with other lenders. Mr. Deal said to assume a 75% LTC. For the construction loan, it would usually be 350 basis points over the 90 day labor, but with a required floor of 5% the current rate would be 3.94% which is below the 5% floor. For the permanent loan, Mr. Deal said to assume 325 basis point over the 10 year treasury, which as of 8/11/2010 would be an interest rate of 6.19%. (Deal, 2010) A financing fee of 1% was also included in our calculations. The General Assumptions page is attached as Exhibit C.

5.3 Development Costs

As was mentioned in the previous sections, the property owners have agreed to enter into an agreement predicated on staged takedowns, in which both properties are combined and taken through the zoning process as one property, but closing will be staged into three closings. The following calculations are based only on building Tower 1. The Pomeray Group's negotiation also includes the other two sections, but no firm price has been agreed to for those sections.

Land Costs

Section 1 will be approximately 1/3 of the site or 121,000 square feet. The Pomeray Group has agreed to a per land square foot price of $90 which generates a land cost of $11,000,000

Hard Costs

The Pomeray Group has been working with John Bornholdt with Davis Construction to begin planning for the project. For the residential component of the project, Mr. Bornholdt said to assume a construction cost of $146 per square foot, which includes the buildings interiors. For the retail component, Mr. Bornholdt said to assume a construction cost of $75 per square foot. For the underground parking assume $32,328 per spot. (Bornholdt, 2010) The projected parking budget may change depending on the amount of parking required, and the final breakdown of underground versus above ground parking. For the purpose of this preliminary pro-forma, the assumption is made that all parking will be underground. Also included in the hard cost is an improvement budget of $150,000 for the pedestrian crossing across Wiehle Avenue which was mentioned in the meeting with the planner. A hard cost contingency of 5% is also added, which should be enough to cover overruns. Our total hard costs totaled $42,214,989. The Hard and Soft Cost Analysis is attached as Exhibit D.

Soft Costs

The soft costs cover such things as marketing, legal, engineering, closing costs, insurance and architectural. (See Exhibit D) A development fee of 2.5% is included, which is standard for a development of this type. A 5% contingency cost is also added. The total soft costs totaled $2,709,125.

5.4 Retail Analysis

With a building efficiency of 84%, the actual rentable retail is 21,000 square feet. The Pomeray Group assumed breaking the retail space into nine bays with sizes ranging from 1,500 square feet to 3,500 square feet. Data from BJA's study was used to generate a rental price per square foot. Industry standards such as potential vacancy rate of 5%, credit loss of 1%,

management fee of 3% and expense growth of 3% were also assumed. The Retail Assumptions page is attached as Exhibit E.

Looking at the cash flow projections in Exhibit F, the Pomeray Group assumes that the retail part of the development will stabilize in 2016. The Pomeray Group hopes to pre-lease a large amount of the space before completion and hopes to have the retail 80% leased by the end of 2014. By the end of 2015 PG hopes to have the property 85% leased, which will lead the project into 2016 with an expected 94% occupancy rate. The two year period needed to stabilize the retail will somewhat affect the final return, but in caparison to the residential cash flow, the effect is minimal. At stabilization it is expected the retail portion of the development will cash flow $745,176 before debt service. The Retail Cash Flow page is attached as Exhibit F

5.5 Residential Analysis

The Pomeray Group used GM&W's study to determine the average square footage per unit, the potential rental price per square foot and the absorption rate. Unlike the retail PG is confident that the residential units will be able to achieve stabilization a year earlier. With the demand clearly shown in GM&W's study PG believes this is achievable. GM&W concluded that 20 units a month would be achievable in this development which would produce a 10.1 months lease up period. PG rounded up to a year's time which would take into effect the changes in seasons. As a result, the pro-forma shows 2014 as being the lease up period and 2015 being the stabilized year.

As shown in Exhibit G the Pomeray Group expects a vacancy rate of 5% by 2015 going down to 4% by 2017. PG also included a Cap Ex Reserve of 1% which is sometimes forgotten by most developers. The cash flow before debt service in 2015 is expected to be $3,351,438. The Residential Cash Flow page is attached as Exhibit G.

5.6 Mixed Use 11-Year Cash Flow Projections

When combining both cash flows together in Exhibit H, the cash flow before debt of $4,189,617 in 2016. As more importance is carried to the residential cash flow, the mixed use cash flow shows 2015 as the stabilization period. The Debt Coverage Ratio (DCR) in 2015 will

only be 1.16, but looking at 2017, two years after stabilization, DCR increases to 1.28 which is more appropriate. This is due in part to the high debt incurred from having to build all underground parking. The Pomeray Group is hopeful that not all parking units will be required to be underground and that the county will reduce the parking requirement as they did with Comstock's project. PG wanted to take a worst case scenario approach which increased the hard costs substantially. The Mixed Use 11-Year Cash Flow page is attached at Exhibit H.

5.7 Project IRR and NPV

Looking at the bottom of Exhibit H, the project generates an unleveraged IRR of 8.91% and a Leveraged IRR of 21.38%. For this calculation the Pomeray Group assumed a terminal CAP Rate of 6% and a sales cost of 3%. When doing the NPV calculation using a 12% Discount Rate the result is an NPV of $8,787,923. Remember that when NPV=0 our IRR requirement of 12% has been satisfied, so a positive number reflects an IRR higher than 12%. PG feels that these returns are strong for a project of this magnitude. Projects around metro stations have come to be accepted as a stable investment for lenders.

5.8 Equity Return IRR

To calculate equity IRR we assumed three different scenarios depending on the CAP Rate at the time of sale. We used a cap rate of 6.25% as our worst case scenario, 5.75% as our middle case scenario and 5.25% as our most aggressive scenario.

Investor I – Equity Partner Return

As shown below, the IRR return for the equity investor ranges from 15% to 21%. The Pomeray Group feels that an 18% IRR, which is the middle scenario, is a good return for the potential investors.

Investor I - Equity Partner Cash Flow, Reversion and IRR			
Cash Flow YR	**5.25%**	**5.75%**	**6.25%**
YR 0	($14,155,791)	($14,155,791)	($14,155,791)
YR 1	$652,767	$652,767	$652,767
YR 2	$815,428	$815,428	$815,428
YR 3	$815,397	$815,397	$815,397
YR 4	$1,055,536	$1,055,536	$1,055,536
YR 5	$1,181,020	$1,181,020	$1,181,020
YR 6	$36,897,925	$31,128,499	$26,282,181
IRR	**21%**	**18%**	**15%**

Investor II – Pomeray Return

As shown below, Pomeray's IRR return would range from 39.7% to 48.2%.

Investor II - Pomeray Cash Flow, Reversion and IRR			
Cash Flow YR	**5.25%**	**5.75%**	**6.25%**
YR 0	($1,572,866)	($1,572,866)	($1,572,866)
YR 1	$72,530	$72,530	$72,530
YR 2	$90,603	$90,603	$90,603
YR 3	$90,600	$90,600	$90,600
YR 4	$117,282	$117,282	$117,282
YR 5	$131,224	$131,224	$131,224
YR 6	$14,992,583	$12,534,764	$10,297,393
IRR	**48.2%**	**44.1%**	**39.7%**

The complete pro-forma is attached as Exhibit I

VI. DEVELOPMENT PLAN

6.1 Timeline

The development timeline outlined below breaks down the development process into 11 stages.

Wiehle Commons Tower 1 Development Timeline		
	Start	**Finish**
Contract Ratification		8/1/2010
Feasibility/Due Diligence/Partnership Agreement	8/1/2010	10/31/2010
Contract Firm		10/31/2010
Prepare Rezoning application	10/31/2010	12/31/2010
Entitlements: Rezoning/Site Plan/Construction Plans	1/1/2011	6/30/2012
Close Development/Construction Loan		7/1/2012
Construction - Apartments	7/1/2012	12/31/2013
Delivery - Apartments		1/1/2014
Stabilization – Apartments/Retail	1/1/2014	12/1/2014
Close Permanent Loan		1/1/2015
Reversion		12/31/2020

Contract Ratification:

The Pomeray Group has been negotiating a sales contract with the landowners for the last two months and expects to have a ratified contract by 8/1/2010

Feasibility/Due Diligence/Partnership Agreement:

While the Pomeray Group goes through the feasibility analysis, they will begin to have formal presentations with potential equity investors. PG will also begin to draft an operating agreement for the partnership. The goal is to have the equity investors lined up before the end of the feasibility period and have an agreement in place.

Prepare Rezoning Application:

The engineers will first begin with putting together a bubble plan to show what the Pomeray Group is trying to accomplish with the site. PG will also be meeting several times with the county to try and put a draft version of the proffer statement. The land use attorney will be

working on putting a rezoning application together. The architect will also be chosen and begin to work on schematic designs of Tower 1.

Entitlements: Rezoning/Site Plan/Construction Plans:

As outlined in the previous entitlement section, this will be a lengthy process filed with citizen objections. Again the goal is to lobby the citizen early in the process so to address their issues and avoid a later challenge at the public hearing.

Construction – Apartments:

The Pomeray Group is confident that by beginning the construction in July of 2012 the building will be able to be finished in 16 months, which would make the building available for delivery by January 1, 2014. The timing should be right, with the building being delivered right around the opening of the Wiehle Metro stop which is expected to open in early 2014.

Stabilization – Apartments/Retail:

As was stated in previous sections, the Pomeray Group is confident that with the amount of demand the project will be able to pre-lease a high percentage of the retail and of the residential units, and have the residential part of the development fully stabilized by early 2015. This will allow for the permanent loan to close by that time

6.2 Project Management Plan and Team

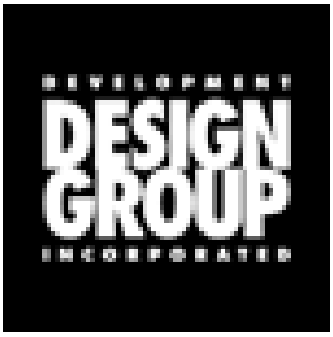
The Pomeray Group is a firm believer in hiring the best and forming a team that can properly execute the business plan. Through PG's experience on others deal, PG have been able to find reputable companies that have a strong track record. The following is a list of the firms that PG has decided to bring on to the team:

Civil Engineering Firm – Dewberry Engineering

With over 50 years of experience Dewberry has represented a wide range of clients from the private and public sector. They are currently one of the leading engineers on the Silver Line extension to Reston. They will be responsible for handling all civil engineering for the project, including land surveying, Phase I and II environmental and site plan requirements. They will work closely with the architect to be sure that the vision for the project is properly executed.

Legal – Walsh, Colucci, Lubeley, Emrich and Walch, LC

The firm is also known as the Land Lawyers for their dominant presence in the real estate zoning and land use sector. They are one of the most well known and respected firms in the area and have worked on some of the highest profile developments in the market. They were involved in most of the projects at the Reston Town Center and currently represent such firms as JBG on their Reston projects. The Pomeray Group is confident that they will be a great asset to the team during our rezoning and site plan approvals.



Architect – Development Design Group Incorporated

The Design Group headed by Roy Higgs has been involved in projects throughout the world. They have a focus on high density mixed use projects and bring cutting edge innovative ideas. They are currently working on mass transit projects in Turkey and India. The Pomeray Group has already begun to brainstorm some ideas for the project, and feels that with the Design Group's worldly experience they will be able to bring the fresh ideas needed to make this project a success.

Construction Management – Davis Construction

Davis has become the one stop shop for construction services. They are the prominent name in our market place and have a long standing track record. They will be involved from the early stages of planning with the architect and engineer all the way through final completion. The Pomeray Group is currently working with John Bornholdt and Dan Hardnock at Davis to make sure the whole team is properly involved, and communicating with each other. Having them involved at an early stage will help save costs in the long run.

Residential Management Firm – The Bozzuto Group

With over 20 years in the local market place, the Bozzuto Group has become an expert in multi-family. They have experience building, acquiring and managing units. Their local expertise and their building experience is the reason why the Pomeray Group decided to use them for this project. Again as with the other team members, they will be brought on early in the process to help make sure that the project is an efficient product to manage.

Retail Leasing Firm – The Rappaport Companies

The Rappaport Companies has over 30 years building, acquiring and managing retail centers in the Mid-Atlantic region. As was the case with the Bozzuto Group, the Pomeray Group picked Rappaport also for their local knowledge and building experience. They will also be able to advise the team early in the process on how best to plan our retail for the most success.

The Pomeray Group feels that a strong team has been assembled, and as mentioned, the team members already begun to work on the project. As the developer PG will be responsible for making sure all teams members are properly communicating throughout the development. PG plans on holding bi-monthly meetings where at least one member from each organization will attend. Any potential issues will be addressed during those meetings along with action plans to solve those issues. PG will welcome the input from all our team members and will rely on their expertise to guide PG through our development plan.

6.4 Project Risks and Challenges

One of the challenges for this project will be timing. For Tower 1 to be ready for occupancy by early 2014, the development timeline needs to be executed as outlined. The entitlement process was a bit shortened in our calculation, but that is from the county's desire to have the properties around the Wiehle Metro ready to go by the time the station opens. If the Pomeray Group begin to run into some unexpected push back from the county, our timing could easily be thrown off, and the project's delivery date could be postponed to 2015.

Another challenge that the Pomeray Group will continue to manage throughout the planning stages is parking. When PG met with the planning staff regarding this project, they were firm on their position that this project needed to park its density, but from the meeting with Comstock, it seems the county may be trying to reduce their parking requirements for properties around metro. One thing is for sure, they will not allow this project to use parking credit from the parking infrastructure that will be built in the public/private deal across the street. As of right now PG is planning on constructing underground parking, but that may change depending on the county's requirement for this project. If more underground parking is needed then shown in the pro-forma, then the number of total units may be affected as the project will not be unable to park them all. PG may also look at creative architecture that blends the parking decks into the building heights, but as was learned from the meeting with Comstock, that is almost as expensive as underground parking. Maybe the solution will be a combination of both.

VII. CONCLUSION

It is the Pomeray Group's conclusion that this project has all the merits of a successful deal, and so, the Pomeray Group proposes to move forward in forming a partnership with interested investors. With the preliminary pro-forma showing an overall IRR of 21.38%, the Pomeray Group is confident that the return justifies the risk.

As was well demonstrated in this proposal, the current demand and future demand will be sufficient to support a project of this size. The arrival of Metro will solidify our findings and will likely improve our original assumptions as the opening of the station approaches. This is

considered a high profile deal, and will draw strong interest from FNMA. Even though the market may change before the delivery of Tower 1, the Pomeray Group still believes that TOD projects will continue to do well, and will somewhat be sheltered from the rest of the market. The amount of available developable acreage around Metro stations is limited in the Washington, DC market, especially around the Reston planned stations. That along with the lack of supply for retail and apartments will help preserve the performance of this project.

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IX. EXHIBITS